

Message Text

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SUBJECT: FINANCE MINISTER SUBRAMANIAM COMMENTS ON GOLD

SUMMARY: AT A PRESS CONFERENCE ON HIS RETURN FROM WASHINGTON
FINMIN SUBRAMANIAM SAID HE WAS CRITICAL OF THE DECISION TAKEN ON
GOLD AND THAT IT WOULD NOT HELP THE DEVELOPING COUNTRIES MUCH.
GOI WILL NOT BE SELLING GOLD AT PRESENT TO BOOST THEIR FOREIGN
EXCHANGE RESERVES. END SUMMARY.

1. IN A PRESS CONFERENCE HELD SEPT. 9 IN NEW DELHI, THE FINANCE
MINISTER SAID THE GOI WOULD NOT (REPEAT NOT) SELL ANY GOLD
AT PRESENT IN ORDER TO REVALUE THE COUNTRY'S FOREIGN EXCHANGE
RESERVES. WHEN ASKED WHETHER GOI WOULD SELL GOLD AT MARKET PRICES
WHEN THE IMF RETURNS GOLD TO MEMBER-COUNTRIES
(INDIA WOULD GET 0.8 MILLION OUNCES AGAINST HER FUND QUOTA OF
3.2 PERCENT IN THE FUND). SUBRAMANIAM SAID GOLD WAS BEING KEPT
AS A RESERVE. QUOTE WHEN A FINAL DECISION IS TAKEN TO EASE OUT
GOLD COMPLETELY FROM THE MONETARY SYSTEM, THEN WE MAY TAKE OUR
DECISION. END QUOTE. HE WENT ON TO SAY THAT THE WHOLE PACKAGE OF

DECISIONS ON GOLD WOULD TAKE A LONG TIME TO BE IMPLEMENTED AND

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THAT AMENDMENTS TO THE FUND ARTICLES WOULD NORMALLY TAKE EIGHTEEN
MONTHS FOR RATIFICATION BY VARIOUS MEMBER COUNTRIES.

2. THE FINMIN HAD VOICED CONCERN AT THE ANNUAL MEETING OVER IMPLEMENTATION OF THE DECISION ON GOLD. THIS HAD BEEN MENTIONED IN THE COMMUNIQUE ISSUED BY INTERIM COMMITTEE AND WAS SHARED BY OTHER DEVELOPING COUNTRIES. SINCE THE OIL FACILITY WAS NOT (REPEAT NOT) TO BE CONTINUED BEYOND 1975 AND THE CREATION OF THE TRUST FUND WOULD TAKE A LONG TIME, SOME ALTERNATIVE ARRANGEMENT WOULD HAVE TO BE MADE TO HELP THE MSAS. FURTHER CONTRIBUTION BY DEVELOPED AND OIL-EXPORTING COUNTRIES WOULD BE NECESSARY.

3. SUBRAMANIAM WENT ON TO SAY HE WAS CRITICAL OF THE DECISION TAKEN BY THE G-10 AND "PUSHED THROUGH" THE INTERIM COMMITTEE BECAUSE IT WAS NOT (REPEAT NOT) GOING TO HELP THE DEVELOPING COUNTRIES MUCH. WITH THE ABOLITION OF OFFICIAL PRICE OF GOLD, AS PROPOSED, GOLD RESERVES WITH VARIOUS CENTRAL BANKS COULD BE VALUED AT MARKET PRICES WHICH WERE MUCH HIGHER THAN THE OFFICIAL PRICE.

4. THIS, HE SAID, WOULD CREATE GREATER LIQUIDITY FOR COUNTRIES WHICH HAD LARGE GOLD RESERVES AND WITH THE LIQUIDITY INCREASE BECAUSE OF REVALUATION OF GOLD, THE FURTHER ISSUE OF SDRS MIGHT GET AFFECTED. IN THIS PROCESS, THE DEVELOPING COUNTRIES WITH GREATER NEED OF LIQUIDITY WOULD SUFFER.

UNDER THE PROPOSAL FOR IMF TO SELL ONE-SIXTH OF THE GOLD RESERVES FOR HELPING POORER COUNTRIES, THE REALIZATION WOULD BE ONLY 1.5 BILLION DOLLARS BECAUSE OF GOLD PRICES GOING DOWN. ALL THE GOLD COULD NOT (REPEAT NOT) BE SOLD IN ONE YEAR AND IT WOULD HAVE TO BE A PHASED OUT PROCESS.

MR. SUBRAMANIAM SAID WITH SALE OF GOLD TAKING TWO OR THREE YEARS, ONLY HALF A BILLION DOLLARS WOULD BECOME AVAILABLE EACH YEAR FOR

ASSISTANCE TO DEVELOPING COUNTRIES. THEREFORE, HE HAD MADE THE POINT IN WASHINGTON THAT THE OIL FACILITY SHOULD BE CONTINUED BY

ANOTHER YEAR. THIS MATTER WOULD BE TAKEN UP FURTHER IN JAMAICA AT THE INTERIM COMMITTEE MEETING.

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5. THE FINANCE MINISTER SAID USA WAS AGAINST THE CONTINUANCE OF THE OIL FACILITY AND WANTED THE CREATION OF THE TRUST FUND THROUGH THE SALE OF GOLD BY IMF. SAXBE

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